

Emerging New East Asian Regionalism

by

Professor Zhang Yunling

Zhang Yunling: It's a great pleasure to be here, especially since this is my first time visiting the United States after September 11. Let me first talk about what happened in East Asia. I think most of you are probably aware of it, but let me summarize it first.

Progress of East Asian Cooperation

The first significant progress in East Asia is that an institutional framework for regional cooperation has been established. ASEAN took the lead in developing regional cooperation in East Asia. ASEAN started summit meetings from the mid-1990s. After the Asian financial crisis, it expanded this cooperation by initiating Ten Plus Three. ASEAN keeps itself in the center by initiating more Ten Plus One dialogues; now there are five Ten Plus One dialogues, aside from ASEAN-China, ASEAN-Japan and ASEAN-Korea. In 2003, an ASEAN-India dialogue began, and in 2004, ASEAN-Australia and New Zealand began, and next year an ASEAN-United States dialogue will probably be initiated.

However, East Asian leaders agreed that Ten Plus Three would be the main organization for East Asia regional cooperation. The East Asian cooperation framework has a formalized annual leaders' meeting, a nine ministers' meeting and senior official meetings. Under this framework, Northeast Asia, China, Japan and Korea initiated their three leaders' meeting starting from 1999 as a breakfast gathering. I still remember the story when someone asked the Chinese foreign ministry spokesman what the meaning of this meeting was, and the answer was

cautiously described as: "the breakfast is just a breakfast." But later on, it became formalized as a three leaders' annual meeting. This is a historical event, since for the first time in their history the Chinese, Japanese and Korean leaders met and discussed the issue of cooperation. This has been emphasized—the three leaders meeting—under the framework of Ten Plus Three, rather than an independent and separate one, which means the three countries cooperate to improve their relations and also to promote the process of East Asia cooperation.

A big step forward was made in 2004. All parties agreed that the East Asian cooperation framework will develop into an East Asian Summit, i.e. from a "plus" dialogue formula to a real regional formation in the concept of "East Asia." It is expected that the spirit of East Asian regionalism will gradually be built up.

The second progress is the development of FTAs—we use FTAs because they are still in the process of a multi-layered structure, starting with the Japan-Singapore bilateral FTA, followed by the China-ASEAN FTA. ASEAN already announced that it would start negotiations with Japan and Korea on Ten Plus One FTAs from next year (2005). Japan is now negotiating bilateral FTAs with ASEAN countries. Also, the real progress of this year is that China-ASEAN signed the agreement on liberalizing trade goods based on negotiations, together with an agreement for a trade dispute settlement. At this year's Ten Plus Three leaders' meeting, China initiated early joint research on

the feasibility of an East Asia FTA. This shows that East Asia has come to an understanding for an integrated approach of regional liberalization based on the progress of multi-layered FTAs.

The third development is financial cooperation that was formalized by the so-called Chiang Mai initiative, based on the bilateral swap arrangements. Though Japan proposed an AMF after the financial crisis, it was considered premature. Finally, it was realized through bilateral swap arrangements for mutual support. More importantly, there is almost a consensus building that East Asia will move forward from the current bilateral swap arrangements into some kind of regionally integrated scheme. One idea is to put all these bilateral swap arrangements together as a regional arrangement, rather than those separate swap arrangements. Another way of thinking which I think is still under discussion is whether it's possible from here to move to a regional monetary cooperation scheme. There is some emerging consensus building that it is necessary to develop some kind of regional financial arrangement, or to start from an exchange rate cooperation, or to set up some kind of cooperative fund. However, it still needs time to be discussed.

The fourth development is that there are many functional programs launched under the framework of Ten Plus Three, like the Great Mekong Development Project and transportation network, energy forum, and so on.

Why has East Asian cooperation emerged? The process of Ten Plus Three has a very strong background from the Asian financial crisis in 1997, which made ASEAN realize the importance of a larger region-East Asia. The aim of the dialogue was to handle the

effects of the financial crisis and especially to prevent another crisis from happening.

Regional cooperation has provided positive support for the recovery of the regional economy. We have witnessed a gradual recovery of the ASEAN economies. China's economy has maintained continuous high growth, and importantly, we see the Japanese economy finally recovering from its long recession.

East Asian Regionalism

I would like to talk about East Asian regionalism. People used to mention Dr. Mahathir's idea of an "East Asia Group," later changed to a "caucus" in early 1990. To some extent, I think Mahathir's idea represented some rational thinking of ASEAN. ASEAN as a group already existed, but it felt very vulnerable, very weak. So it wanted something in an enlarged region in order to get more influence in international arenas and thus play a more powerful role. But for many reasons, his idea failed to be realized.

Real progress was achieved under the framework of Ten Plus Three. In 1999, Ten Plus Three leaders agreed on a joint statement, and for the first time they used "East Asia" as a regional concept and called for strengthening East Asia cooperation. Leaders did not just support economic cooperation, but also cooperation in the political and security areas. President Kim Dae-jung proposed to study the long term vision for the regional cooperation by setting up a group called the "East Asia Vision Group" (EAVG). Each country had two members and I was fortunate to be one from China. EAVG worked for almost two years and presented its recommendations to the leaders in which, for the first time, the group called for East Asia Community building. This is very significant, since they clearly

recommended to East Asian leaders that East Asia needs a community. In order to develop the community, the report recommended many areas for further cooperation: economic cooperation as the priority, along with cooperation on cultural issues, education issues, social issues, and political issues. Leaders of East Asia's 13 countries accepted the report in principle and they decided to nominate a group, a special group, called the "Study Group" (members are officials) to study how to implement the recommendations. The "Study Group" made 17 recommendations on how to implement and strengthen cooperation.

The concept of an "East Asian Community" was, for the first time, officially confirmed by Japan and ASEAN at their leaders' meeting in Tokyo in 2003. The two sides announced that they would make joint efforts to build an East Asia Community. From 2003, many things relating to developing an East Asian Community have been put into the agenda and discussions. For example, Malaysia proposed to set up a separate East Asia cooperation secretariat at a 2003 leaders' meeting. Due to opposition from some members, as an alternative, a special unit under the ASEAN secretariat was set up to handle East Asia cooperation affairs, which shows that East Asia community building was recognized and accepted readily.

ASEAN 's Role in East Asian Cooperation Development

In East Asia, regionalism was started by ASEAN. I know there's a lot of criticism toward ASEAN. Critics argued that ASEAN is not very powerful and not very effective. But to me, the great value of ASEAN is that it created a regional framework, an institution that gradually brought

all the countries together for cooperation and for peace.

ASEAN has played a key role in bridging and bringing other East Asian countries together for cooperation. I think the countries in East Asia greatly admire ASEAN's role. We can imagine that without ASEAN's role, it would be difficult to get China, Japan and Korea together—especially China and Japan. ASEAN is a front-runner in the area of East Asia. But East Asian cooperation with participation from China and Japan, in turn, puts pressure on ASEAN to move faster and to do more. That is why last year ASEAN decided to build three communities with a time table (2020). ASEAN will continue to play an important role in the future East Asia cooperation process.

East Asia has to do much more than ASEAN. Although we have to recognize ASEAN's role in creating this kind of regional environment and also the initiative of this role to bring all the countries together, East Asian regionalism's great value is the process of participation and cooperation. East Asian Community building itself is a process. It is better not to set up an early clear goal and clear model. Though we call it the East Asia community, if you read the vision group report, you still can't understand what kind of community it is. It is based on cooperation programs rather than a clear, defined structure.

The East Asia cooperation of community building process may gradually bring all the countries together and agree on some kind of regional organization. Sometimes it's described as a moving train. We probably don't know where the train is moving to and how fast it can move. However, most countries in the region are now on the train. Once the train is moving, since all the major parties are on the train, we may have the

time, or feel pressure to discuss the direction, the speed and the final goal.

East Asia has no history of equally participatory and collectively managed regional cooperation. What kind of a community will and can East Asia build up? I still cannot tell clearly, even though I'm deeply involved in the process. However, if East Asia wants to move successfully and to reach what it wants, it must identify a clear structure gradually, and also the approach.

Roles Created by Community Building Process

To understand the nature of the East Asian region, an East Asia community in the future may not be based on a super regional organization. The community building process may contribute the following roles: One is to set up rules for economic relations and political relations—rules-making that did not exist before. The second is to integrate the region according to international rules. The East Asian Community will not be a closed regional organization. This is important for advancing the less developed members along with the regional cooperation process. The third is to develop regional institutions, not by mandating regional affairs, but instead playing an important role to consolidate and coordinate the policies and activities in the region.

From a mid-term round, it is necessary to consider establishing a regional organization, with a name like the “East Asia Economic Organization” (EAEO), or just “East Asia Organization” (EAO). This organization will coordinate all programs of regional cooperation, for example, an East Asia FTA. East Asian regionalism will be better managed through a regional organization.

The key role of East Asian institutions is, as I said, is to let East Asian countries get together based on rules for peace, for a good relationship, and for economic prosperity. East Asia regionalism is not inward looking. It will do something differently for the region, but at the same time, it has to keep the region open since all East Asian countries have strong external relations and interests. It will not be possible to just rely on the region itself. This is probably quite different from the EU model. The EU model has a clearly defined political goal and its members mostly rely on the region itself. But East Asia has to follow what I call “open regional cooperatism.” This means that while they promote their cooperation in the region, they also allow and encourage members to cooperate with external partners.

FTAs in East Asia may not mainly intend to create more internal trade, but to reduce the cost and enhance efficiency. China-ASEAN trade has increased very fast without an FTA. Why do they need a FTA? They intend to make their trade and investment more efficient and rule-based. In the East Asian region, the share of intra-regional trade was close to 50%; it is hard to imagine that they will increase to 60 or 70% even with an FTA. But without any formal arrangement, trade and investment are mostly based on the market performance itself, so it's not so stable on the one hand, and also not smooth due to barriers. Due to their interests, any arrangement should be WTO consistent in nature.

Of course, East Asia regionalism will create more regional interests. These interests have two meanings: one is to make the region cooperative, stable and maybe prosperous; another is to make the region more influential in international rule-making.

FTA became a simple abbreviation, but actually East Asia economic arrangements are much more than FTAs; they are FTA liberalization plus economic cooperation. Economic cooperation plays a very important role. Look at the example between China and ASEAN. In 2002, China and ASEAN signed the Framework Agreement for Close Economic Partnership, which includes not just an FTA, but also many other things, ranging from Early Harvest (early liberalizing of 600 agricultural products), financial cooperation and sub-regional projects, together with an agreement for agricultural cooperation, covering agricultural development, technological transfer, and training. Furthermore, other agreements were signed to develop political cooperation in the South China Sea and anti-terrorist efforts.

East Asian Relations with the U.S.

Let me turn to the U.S.'s participation and China's role. After arriving here and through discussions with friends in D.C., I realized that the U.S. is greatly concerned with what is happening in East Asia and worries that it will be excluded. East Asian cooperation by its nature excludes the United States. My friend in the State Department asked me whether the U.S. can be a member. I said, "Probably not." This does not mean that East Asian cooperation contradicts the interests of the U.S.; a cooperative East Asia will be good for the United States.

There are many ways for the U.S. to be involved in the East Asian region, either through bilateral efforts or on a regional level. The U.S. government already announced an initiative for an "ASEAN Enterprise" by negotiating bilateral FTAs with ASEAN members. The U.S.-Thailand FTA is on the way. Perhaps there will be a U.S.-

Japan FTA, or even a U.S.-China FTA? East Asian cooperation will not prevent its members from making external arrangements. In political and security areas, like a Northeast Asia security arrangement or a forum, the U.S. will have a clear role and direct participation. It should not be forgotten that we have APEC in the Asia-Pacific region, which is really an institutional linkage between the United States and East Asia. When the Clinton administration raised the level of APEC to a leaders' meeting, the strategy was clear: engaging East Asia. APEC today has a more important role to play to bring East Asia and the United States together.

I remember when the EAVG discussed an East Asia FTA, all members kept in mind that East Asia should move ahead of APEC's Bogor goal; East Asia plays a positive role to realize the liberalization of the Asia-Pacific. In facing regionalism from both the American side and the East Asian side, APEC should play a special role to avoid a division of the Asia-Pacific. I don't think the U.S. will be excluded. The U.S. is very important to East Asia. Actually, each East Asia member at the same time is seriously considering how to engage the U.S. The meetings in East Asia that I have participated in all mention this point: finding a way to engage the United States. I think the wisdom is from both sides—East Asia has to find a way and the United States also has to find a way.

China's Role in East Asia

Lastly, let me talk about China's role. China is very active now, but only recently. China accepted regionalism very late. For example, even in an EAVG discussion, China's official attitude was hesitant to accept the word "community." China has gradually accepted East Asian Community

building. During this year's Ten Plus Three leaders' meeting, Chinese leaders turned very active, for instance, by proposing a leading role in an East Asia FTA study and hosting a East Asian cooperation meeting, and also voluntarily donating money to support the East Asia unit on the ASEAN secretariat.

However, China does not want to be a center of power or a leader. China's great interest is to use this regional cooperation to stabilize and improve relations with other members in the region in order to create a good environment for its economic development. At the same time, of course, China-U.S relations are the key relations for China to remember and not to damage.

From a future perspective, there are great difficulties ahead for East Asia regionalism. As I mentioned, the great difficulty is probably where we should go, what is the goal, what is the model, and how to really bring East Asian countries together. ASEAN plays a very important role and an active role, but ASEAN now worries a lot. China's role depends on whether other countries accept it. A danger is the Taiwan Straits situation. If something happens, it will damage all that we have done.

Thank you.

Kent Calder: Thank you very much. We wouldn't be here if we weren't interested in where this phenomenon of regionalism is headed, what the forces are that are driving the system, what the limits are and whether things like recent Sino-Japanese tensions may not be limiting that. And also, in terms of the PRC's policies, how much is regionalism going to be privileging the ASEAN Plus Three or some of these other regional groups that don't include the United States,

as opposed to organizations like APEC or other broader entities?

Marcus Noland: It's a great honor to be here. Most papers written on this topic are not very good. Professor Zhang's paper is very good and I would urge you to read it. I would like to raise two questions or comments about it and then make some other comments based on a chapter I wrote for the recent Asia Foundation report on U.S. policy towards Asia for the coming administration.

Professor Zhang identifies four characteristics of emerging new Asian regionalism. One, that it's functional, pragmatic and gradual in institution building; two, that its embryonic structure is in ASEAN, and he holds forth the ASEAN way as a kind of template; three, that it's based on new open regionalism; and four, neither Japan nor China have the role as sole leader. Now, the first one—functional, pragmatic and gradual—and the last one—neither China nor Japan as the sole leader—are unobjectionable. I would like to raise questions about the other two.

The first one is ASEAN and the ASEAN way as a template. ASEAN, as Professor Zhang argued in his oral remarks, is an understandable attempt for relatively small countries in the global system to aggregate their influence so that they have a greater voice. It is a natural response to issues where there is a commonality of interests.

ASEAN Way as a Template Ineffectual

The problem is that this approach is relatively ineffectual when there's a lack of coincidence of interests, much less actual conflict. I'll give you a few examples. One would be the recent brinkmanship about the ASEAN summit where Prime Minister

Thaksin was threatening not to come if the issue of the Muslim insurgency in the South was raised. Another would be the ineffectual response to the crisis in East Timor, which eventually led to Australia playing the primary role in stabilizing that situation. A third would be the relatively ineffectual ASEAN free trade agreement that has got all kinds of issues, and I would point to the fact that extra-regional trade is growing considerably faster than inter-regional trade, suggesting that the agreement does not have a big impact on promoting inter-regional trade.

APEC, as Professor Zhang invoked in the end of his oral remarks, in some sense, is the ASEAN template enlarged, and I would argue that discussion of the Bogor declaration in this context makes my point—that it's absurd on the face of it. Basically, the issue is, if everyone is singing from the same hymnal, it really doesn't matter how the choir is organized, but if the different singers want to sing different tunes, then you actually have to have rules and procedures in institutions.

On the second issue of open regionalism: the concept of open regionalism actually originated with the Australians and the meaning is specific. It meant that any country willing to take on the obligations of membership was welcome to join the club. Now, obviously, Australia has huge economic and strategic stakes in East Asia, and so my question for Professor Zhang is, does he endorse the Australian definition of open regionalism—open regionalism as it originally was meant? My impression from his oral remarks, with respect to the United States, is that the answer is no. The question then is, if not, why not? What implicit definition of regionalism and membership does Professor Zhang have in mind?

Asian Regionalism Presents Challenges to American Policy Makers

With respect to the United States, I don't have to tell the audience here that Asia is important to the United States. The region, as Professor Zhang alluded to in his oral remarks, encompasses a great deal of diversity, but the process of growing regional, economic ties is forging a greater regional identity than existed in the past. And that is contributing to the development of these embryonic regional initiatives and institutions that Professor Zhang detailed in his paper and his oral remarks. This presents American policymakers with some paradoxical challenges. Asia's heterogeneity militates against defining U.S. policy in regional terms, since on many specific policy issues, the interest of individual Asian countries diverge, yet the emergence of regional institutions in this regional identity requires some kind of response on the United States.

In the interest of time, let me just very quickly talk about two issues—finance and trade—and, as I alluded to, there is much more detail in the chapter that I wrote on this Asia Foundation report that came out last month.

Financial Integration Initiatives

The financial integration initiatives are potentially constructive for a variety of reasons. There are reasons to believe that surveillance would be more effective on a regional basis than a global basis, basically because the countries that are in the same neighborhood have more at stake and would arguably be more rigorous in their surveillance. Past history has shown a strong regional character to bailouts. For example, when Latin America has trouble, the United States provides a disproportion-

ate amount of the finance for bailing them out. And if you have regional initiatives in Asia that actually generate additional resources that are in some sense available to the international system, that's a desirable thing. But the problem is, you have to make sure that those developments are consistent with the existing global architecture.

East Asia right now has official reserves of about \$2 trillion, which is about 60% of aggregate global reserves, which is to say that if the political decision was to go their own way, they certainly have the financial muscle to do so. And the problem is, if you don't link conditionality relatively carefully with that of the IMF, you could easily imagine a situation in which you generate moral hazard on a giant scale and you end up bringing down the whole global financial system. So it's a potentially positive development, but it has to be carefully managed. It's been done so thus far, but there is no guarantee that that will always be the case in the future.

Preferential Trade Agreements

With respect to the trade initiatives, I'm not a very big fan of preferential trade agreements. I would suspect that they're less desirable, and I would argue that with respect to the United States, as well as Asia. The United States is in an interesting position with respect to East Asia in this regard. We're increasingly a post-industrial economy; we have relatively low border barriers in most product areas. We really want to negotiate about so-called "behind the border" issues, which tend to be more intrusive.

Secondly, for our domestic political reasons, we've had the tendency to tack on to our preferential agreements things like labor standards and environmental concerns. In effect, what the United States is doing is

raising the threshold, raising the bar for potential partner countries to negotiate a free trade agreement with the United States.

That's not the case with, say, China, or some other countries in East Asia. What should be the U.S. policy response under these circumstances? My argument would be, what we really want to do is push on the WTO and the Doha round negotiations. If trade liberalization is achieved on a global basis, then it makes all these preferential agreements less attractive, whether they are the ones the U.S. is pursuing, or the ones that the Asians are pursuing, or both.

Secondly, you have a potential in Asia—which I don't think you really have elsewhere in the world—which is that, if you have big preferential agreements that excluded the United States, they might disadvantage the United States to such an extent that the United States would actually be forced to reconsider some of our policies. We will be forced to decide whether we really believe in labor standards or we're committed to pursuing environmental agreements under free trade agreements, if that meant being disadvantaged in a China-South Korea-Japan agreement, for example, or not.

To recapitulate, in a field in which too many analyses substitute a sort of weak-minded fuzzy logic for a real thought, Professor Zhang's paper is really quite a welcome addition. It is a very interesting paper and I urge you all to read it. Thank you.

Taniguchi Tomohiko: It's my pleasure to be a part of the panel. Professor Zhang's presentation is very timely, as evidenced by this completely full room. Your paper also was very much intriguing and thought-provoking, but your oral presentation, I should say humbly, was even better, because you

referred to the U.S. role, which I would like to cover following Marcus' comments.

U.S. Should Be Part of Any Regional Arrangement

I think the United States, so long as any regional arrangement is concerned, should be fully part of that. If it is not, probably its allies, be it Japan or Korea, should encourage the United States to be fully engaged in the discussion process. And I say this for three reasons.

First of all, historically speaking, developments in Japan, no doubt, and Korea, Taiwan—you name it, ASEAN nations—couldn't have been made possible, had it not been for the blood, sweat and tears shed by U.S. forces first in Korea, and second in Vietnam. A lot of people in East Asia and also in this country tend to take these for granted, but had it not been for an active engagement of U.S. military forces, you're not talking about prosperity in Japan, or in Korea.

Think about it. If the Bay of Camranh had fallen into the hands of Russians, what could have happened? The Sea Lane of Commerce linking the Straits of Malacca and Japan and Korea could have fallen into Russian hands as well. That's the situation you might have found yourselves in. Secondly and similarly, it is still the United States, and the United States alone, that's providing a security umbrella throughout the region. In that sense, the United States is still playing a very crucial role in providing security, which is no doubt a basis of prosperity that we're all talking about this afternoon.

Thirdly, that's almost a truism, but nonetheless, for East Asian nations, be it ASEAN nations or Japan, China, Korea—for

all of them, the United States may not be the biggest trading partner, but the biggest trading partner for everyone externally. Outside of the region, the United States is the biggest trading partner for every one in the region—China, Korea, Japan, and so on. For these three reasons, the United States should be fully engaged in any sort of discussion about regional groupings, and I'm still puzzled why the United States is rather nonchalant about what's going on in the East Asian region.

Currency Is an Essential Component of Regional Development

I noticed there was one other factor, currency, that was conspicuous in its absence from Professor Zhang's remarks. He talked a little bit about the Chiang Mai initiative as an encouraging development. I tend to agree with him, but the Chiang Mai agreement is a halfway house at best for two reasons—first, because 90% of the accumulated money under the framework of the Chiang Mai initiative can be used only when the IMF agrees.

Secondly, the stock of money under the initiative is not comprised of the Indonesian rupee, the Malaysian ringgit, or the Japanese yen; it's the U.S. dollar. The end result of the Chiang Mai initiative, the way in which it is designed, contrary to the wisdom that the Ministry of Finance of Japan wants you to believe, is wholly dependent upon the public common goods that the United States willingly provides—that is, the U.S. dollar, hence enhancing the role of the U.S. currency. I would argue that there has to be creative thinking, firstly to involve fully the United States in the process of thinking forwardly and secondly, to come up with a new, really new framework in terms of currency arrangement. That's something like the Asian currency unit,

ACU, which is basically a basket of currency, probably 40% or more of the weight being given to the U.S. dollar, 20-30% given to Japanese yen; the rest being split into a host of regional currencies.

When you think about regional development, you will have to think at some point about what sort of currency arrangement you will want to have. And then, in looking at currency arrangements, I would suggest that this idea of a basket currency, ACU, can be addressed more fully. Also, whenever we think of currency arrangements, we have to take into consideration that there is a huge misalignment between two of the most powerful nations in the region—Japan and China—a freely floating currency and a pegging currency.

We are looking at a massive devaluation of Chinese currency at the moment, ladies and gentlemen, when everyone wants the currency to appreciate because the Chinese currency has been fully pegged to the U.S. dollar. For instance, at the beginning of this year, the Korean currency, as opposed to Chinese currency, was 144.4 and it is now 125.8. The Vietnamese currency was, at the beginning of this year, 1954. It's now 1910.

The situation is the same with India and Thailand. We are looking at huge gaps taking shape between Malaysia and Thailand that are competing with China in many respects—in foreign direct investment and in manufacturing. Japan and China may not compete in such a degree because these two economies are mutually supplementary, but when it comes to economies like Thailand, India and Vietnam, they have been very much disadvantaged by the devaluation that is going on in terms of Chinese currency. The currency aspect should have been fully put into perspective in Professor Zhang's discussions.

This paper of Professor Zhang's has been a very refreshing addition to the ongoing debate and there are lots of other points that I would have liked to cover also. Some points relate to definitions of the terms that Professor Zhang had to use; for instance, "consensus." He puts a lot of emphasis on the word "consensus," but I wonder, consensus for what? I'm not so entirely sure either that the train without a compass can go smoothly. He talked about the moving train of the ASEAN way or East Asian way, but I'm not fully sure whether it can go further without a clear-cut compass.

Thank you very much for this opportunity.

Q&A

Calder: Thank you very much. I think we have definitely gotten the basis for an extremely interesting discussion. The questions that our commentators have raised—what are the forces that are driving the system? We have a lot of talk of Asian regionalism, but what is it, how substantive is it, how substantive are the institutions and what is driving a real policy change here? I know there are several issues that you probably would like to respond to, Professor Zhang.

Zhang: Concerning East Asian regionalism, the key is how to get all of the East Asian countries together to move in one direction. The most important thing is the process. East Asia was divided and it never had any kind of rule-based relationships. This is even true for economic integration, which is driven mainly by the market. Regional cooperation, especially institutional development, will help to stabilize economic systems and also regional relations. I think those are the basic common interests and understandings for all parties, which make them together.

If an East Asia summit starts next year, what would they do? One thing is to get together for an exchange of views, to know each other—this is the foundation that makes the leaders feel like one community. Currently, under the Ten Plus Three framework, only ASEAN is at the center, having a one-hour dialogue with China, with Japan and with Korea separately. An East Asian summit will create a different atmosphere. We can imagine that once they get together to discuss regional agendas, they can identify what they can do, what they can promote. They have to put an agenda on the table for discussion. The emerging East Asian regionalism is still very embryonic.

Open Regional Cooperation

Concerning the concept of open regional cooperation, or new open regionalism, I tried to make a difference between APEC open regionalism and East Asia's. APEC open regionalism is based on unilateral commitment and is liberalized for all nations, but East Asia new regionalism wants to create a regional identity, at the same time also encouraging individual members to extend and develop their relations with others. That is my new open regionalism, which is also different from the European model.

To answer the questions about a currency arrangement, I think it's probably too early to consider an actual Asia currency unit. What I try to emphasize is the significance of this bilateral swap arrangement system. There are two roles—one is that they really put forth some of their resources together and mostly as a gesture that the country provides confidence for the market. It's not the meaning of real capital, still small in size; it's the meaning of collective commitment, insurance for market stability. That's

very important. If we compare what happened before the financial crisis, this is different. At that time, the slow American response and the IMF created a bad policy. So, if a regional system existed, or collective action would be taken, that would send a very strong signal to the market. That is the value of the swap arrangement. East Asian financial cooperation does not act alone; it integrates with international organizations, such as the IMF. It's a combination of regional effort and international systems together. It's two forces jointly operating together rather than just relying on the region itself. For further development, I think it should move gradually. The market foundation is still highly based on that regional collective effort and also an international system.

With regard to the relations and role of China and Japan, neither China nor Japan can be the sole leader. You can see different influences, and in the future, surely Japan will play a very important role for what I call the rule-making as a developed economy. And China surely will play a very important role in initiating ideas and programs. All other countries expect that China and Japan can cooperate. This is not easy, though this does not mean the two countries will not be able to work together. They can work together on many issues.

The Chinese currency is too complex to explain. I think it's already been debated for quite a long time. It's not just China's concern, since the Chinese economy is so strongly supported by a large amount of FDI flow. If the RMB appreciates, it will hurt many other currencies since China actually is a market used for exports by other nations. For instance, if there's an RMB appreciation, companies in Japan will immediately feel pressure on how to readjust since they also import a lot from China.

Calder: Thank you very much. I might just add, as far as I can see among our three participants, we've got some broad agreement, that on the notion of regionalism there is a kind of safety net in the event that there were another Asian financial crisis or something that the region wouldn't want to see, similar to what we had in 1997 of the West waiting and the region being savaged by a financial crisis. Dr. Noland talked about a surveillance mechanism and Mr. Taniguchi agreed. You talked about a regional collective effort, plus the international system, especially in the finance area. I know we have a lot of questions.

Questioner: I have a question for Professor Zhang about some fundamentals of regionalism. I think there must be at least two key ingredients for regionalism to be really successful. One is that the countries in the region have to agree on certain policies, including diplomacy, security, trade and investment. Also at the same time, those countries have to share some values. The other ingredient, I think, is there must be at least a country or two that has the capability to lead, and are trusted by other countries in the region. There have been a lot of talks in the Middle East and Africa about regionalism. They failed because of the lack of these two key ingredients. My question is, do you think those two factors I just described really exist in the region?

Questioner: Professor Zhang, you have been very active in the Track Two dialogue for ASEAN Plus Three. You convened the initial meeting. You were at Bangkok; I assume you will be in Tokyo this June. China is the general coordinator of the Track Two dialogue. What are the main issues, the main topics you would like to see addressed at that Track Two dialogue? Could the Track Two dialogue give direction to the train?

Questioner: Professor Zhang, I work with Lyndon LaRouche and his view of the current dollar collapse is that this is not cyclical but systemic, that we're looking at a long-term result of the breakdown of the basic American physical economy—the manufacturing, the infrastructure, and so on, since the 1971 launching of the floating exchange rates. In that context, the Plus Three are damned if they do and damned if they don't, if they keep buying the U.S. debt, or if they stop buying the U.S. debt. In that light, do you see any sentiment or any perspective for the new Asian cooperation moving for demanding a new global economic structure, a new financial structure, returning to fixed exchange rates, this kind of process?

One Common Value for East Asia

Zhang: Do East Asian countries share common values? The problem is that we used to judge common values in one ready model, i.e. European integration. People always argue that if you want to have regionalism, you must have the same values as a foundation. If not, there will not be any regionalism, as in East Asia. It is true that East Asia is very diversified. But there is one common value for East Asia: if they want to have peace and prosperity, they must cooperate with each other. As a region, they have more and more shared or common interests. This is probably a new value for the region, which is not based on religion, or Chinese culture, or anything else.

About the leadership, as I mentioned, neither China nor Japan plays the sole leading role. Again, we use the European model, the France-Germany coalition as joint leaders. I hope China and Japan will cooperate, will use more common sense to promote or to go to the same or shared direction, rather than to jointly assert lead-

ership. In forging regionalism, ASEAN started first, and also successfully found its own approach in such a diversified region to bring all the countries together. That is what East Asia needs—to find a way to bring all the countries together, to bring China and Japan together, and hopefully also to find a way to bring mainland China and Taiwan together.

We may call it a consolidated leadership. Someone said East Asian cooperation may be led by a functional leader. As I mentioned, Japan in many areas can be a leader. China may play a leading role as an initiator for many things. China has to be very cautious. Its initiative will not lead to any misunderstanding by Japan, ASEAN or by its American friends. We can see different kinds of leading roles, not based on a country concept, but on a functional approach.

About the second track, last year, as the general coordinator, I organized the first meeting of the Network of East Asian Think-tanks, known as “NEAT.” The aim is to bring the East Asia research policy oriented research organizations together. The original idea is to encourage intellectual participation and contributions, which the East Asia process lacks. East Asian cooperation needs ideas. Intellectual participation will contribute a lot to this process.

About the currency issue, my personal view is that both China and Japan would want a stable dollar, so they will not make a big change of their reserves. But East Asia needs to develop its regional capital market to mobilize its own resources. East Asian economies rely on banking too much. They need to attract money to their capital markets. Due to restraints, you will not expect a lot of money to come back to the region. I think the Chinese government will be very

cautious to any policy change of its currency.

Calder: Perhaps a related question—what about the possibility of marginal shift, or significant marginal shifts—particularly now that the euro has become a major global currency and is proving to be quite strong—marginal shifts on the part of China toward the euro, particularly given developments, improving developments in relations between China and Europe, as well as the economic factor that the euro is strengthening?

Zhang: As I said, the mainstream idea in China is that the government has to restructure its reserve currencies, but should do it very cautiously and gradually, because if you have a very weak U.S. dollar, then Chinese interests will be hurt. It’s a gradual process, rather than a big restructuring.

Calder: Our commentators might have a brief comment on that issue.

Noland: Yes, just briefly. Selling the U.S. government debt in the hands of Japanese is going to be almost like committing suicide, so I don’t think it will happen. By the way, out of the outstanding amount of U.S. government debt, 40% is held by the Japanese officially and privately and 10% is in the hands of Chinese.

Questioner: I think regionalism in the East Asian community which you mentioned is possible only among nations who share almost the same political system, I mean, democracy. The current Chinese political regime is not democratic. So do you expect regionalism will happen in the East Asian community? Such a political change in China will be a very drastic change. Is that possible, or do you think keeping the same political regime is possible in the region?

Calder: In other words, can regionalism progress given the current political configurations that exist?

Zhang: What I tried to describe about this regionalism is based on two things—one is the coordination and cooperation for stability, and to some extent, institutional building, not to the extent to create a super regional organization to manage regional affairs. There is diversity of political systems in the region that does not require the same political system. The East Asia Community would be a loose regional organization, but based on strong functional rule makers. It is similar to ASEAN, but it's beyond ASEAN, it is ASEAN Plus. Aside from great differences, all countries have to get together and agree to move to an East Asia summit, and then decide to consider an East Asian FTA; it doesn't require the same political system. But also, who can tell how the political system will change in the future? They are changing; maybe they will move closer and become more similar.

Noland: Professor Zhang, in a number of points in his discussion, invokes essentially ASEAN and the European Union as the only two models of international cooperation. There are plenty of models of economic, political and military cooperation around the world. The form of your argument is to say, "We're not going to be like Europe; hence, we will be like ASEAN." And my response is, there are multitudes of these forms of organization, so why only pick two to be the points of comparison? If you go to Latin America or Africa, you can see all kinds of forms of cooperation, some arguably more effective than ASEAN. I think you're displaying a kind of a rather Asia-centric view. It's fairly common among Asians, but I think your analysis will be strengthened if you broadened the field of view beyond the European Union.

Zhang: That is a very great comment. I emphasized ASEAN because ASEAN is a founder, an initiator, and also ASEAN's role is to get all the parties together. That's why I noticed ASEAN's role again and again; its role is still there. But East Asia is different from Southeast Asia, thus the East Asian Community will be different from ASEAN.

Calder: Could I press you just a little bit as Marcus has also done. Certainly, it's difficult to figure out exactly what it will be, but what will be the forces that will drive it? What will determine its configuration? One generalization I get from you and the others is that it will have a lot to do with finance; 60% of global reserves are in the region, there was a financial crisis in '97 and the region suffered from it, and there's a possibility mentioned of instability in financial markets.

Can we reasonably say that it will be driven by crisis or by the threat of crisis, and that part of it will have to do with finance, just as one example, or are there other things that we can say in order to narrow the range of possibilities about what it might look like?

Another one might be energy, for example. The region imports heavily. Of course, China's energy imports have been rising very rapidly. Could Asia come together functionally on some means of either economizing, or jointly procuring energy, or building pipelines, or something like that—or food, or maybe trade? We didn't seem to see as much in the trade areas, the European sort of customs union doesn't seem likely. Is there a way to narrow a little more the range of possibilities, or is it mainly a network operation? You talked about human relations and think tank ties and so on. Are we talking mainly about just deeper ties and

communication among think tanks without a specific policy reference?

Zhang: I will try to summarize what is the driving force behind East Asia regionalism. As I mentioned, the Asian financial crisis in 1997 forced countries in the region to realize that they have to do something together. Economic integration encourages and presses East Asian countries to further liberalize their markets. Market-based integration alone is not enough; we need official arrangements to make it stabilized and rule-based. At the same time, other regions are doing the same thing. The U.S. is leading in the creation of regional trade arrangements (RTA); East Asia has felt pressure to do so.

Questioner: Professor Zhang, you mentioned security as an element of a regional organization in your opening remarks but you didn't elaborate on it. It would seem that a loose organization and regional security guarantees are not readily compatible. Do you envisage a situation where a regional organization could, for example, create effective security guarantees to South Korea and Japan against North Korean potential aggression, and do that in the absence of U.S. military forces backup? If you do envisage that, what would it take to get there?

Security Issues Should Be Part of Regional Discussion

Zhang: Security issues are still not on the agenda. I think they should be on the agenda for discussion, maybe starting from senior defense officials, then on to a higher level. Security cooperation may not intend to create a security organization since the countries have to consider existing military arrangements. But security issues can be discussed among the East Asian members.

Actually, they already started in non-traditional security areas. China and ASEAN jointly made a statement on non-traditional security cooperation when they signed the FTA framework. Also, East Asian leaders called for cooperation in a non-traditional security area, but in the traditional security area, cooperation is inevitable in the future.

Already there are nine ministers meetings under Ten Plus Three, why not a defense ministers' meeting? I don't think this creates a separate identical regional security arrangement against the United States. The U.S. and Japan have their military alliance; this is a fact that China seems to accept. But this is not for everything. Now we are considering a Northeast Asia security forum based on the six-party talks in the future with the participation of the U.S. We also have ARF. Ideally, in the future, East Asia can have its regional security cooperation system. This will help to establish a stable order and develop better relations with the U.S.

Taniguchi: Beyond the issues of North Korea—whether there can be an umbrella framework providing security for the region, I doubt it. We're all captive to a kind of computer keyboard that's not necessarily human-hands-friendly but we have sunk so much capital that it would be virtually impossible for us to switch from one single keyboard that's "QWERTY" to something different. The switching cost is way too expensive.

The same can be made about the security situation in East Asia. The United States has put in so much capital already and we have contributed, we have subscribed to that arrangement already. The sunken cost we have paid is enormous; therefore, the switching cost is enormous as well.

Questioner: Judging by the questions that were raised, I think there's so much concern about things or factors that militate against regionalism. I think these observations are valid in themselves and in fact, it is very difficult to categorize all the countries in that area as being homogeneous. Having said that, however, I think there is an underlying motivation among the countries themselves, and that is the motivation to achieve peace and how to achieve it, and what is the way by which we can achieve peace.

Let me go back very briefly to ASEAN, since it was very much discussed. ASEAN did not start as an economic cooperation, although it was used as a vehicle. On the contrary, the ASEAN countries themselves had disputes even before ASEAN was formed. These disputes did exist before and still haunt the countries, but if you look at the history of ASEAN there has not been war among the members of ASEAN. Economically speaking, we may have been a failure by some standards, but in terms of achieving peace between the countries involved, we have prevented war between the Philippines, Indonesia and Malaysia, Malaysia vis-à-vis Singapore.

There have also been talks about differences between the European community and what is happening in Asia. There are differences but there are also parallels. Let me state that the European community actually started with peace as their basic objective, with France trying to control the production of coal, they thought it wise to have some sort of cooperation whereby you tend to put somebody within a rule making body. Essentially, that is a driving force that is also being taken into consideration by the countries in this region.

The last point is that Professor Zhang mentioned that it is a process, and I do think it really is a process. There are different models, but this is a process. My question there is, if this is a process Professor Zhang, what is being done with respect to people-to-people relations? I think you are moving fast in terms of official relations, but I think you have to consider people-to-people relations, because when you look at the region, in terms of significance, actually its population is going to be very significant in terms of the growth in population, which eventually will have an impact on the economic and political direction of the region.

Calder: Professor Zhang, perhaps you have some very last comments on this and other matters.

Zhang: My idea is that only the current U.S.-Japan military alliance and an alliance with a few other partners is not enough. East Asia needs to develop its own security cooperation mechanism. This is a mechanism for handling its own regional security concerns. It would not ask to dismantle the current existing U.S.-led security arrangements. China is not included in any U.S.-led military arrangements. East Asian security cooperation may also be helpful to reduce the tension in the Korean Peninsula.

Calder: Thank you very much. I think we have just one brief comment.

Noland: I have a brief comment. I just want to make sure I don't leave people with the misimpression that I disrespect the countries of ASEAN. I love the Philippines. The Philippines is one of my favorite countries, sincerely. I just came back from Thailand, another great country. Malaysia is an impressive place. Singapore reminds me of Dallas, except it doesn't have football. And I suspect that Singapore will continue to

remind me of Dallas, regardless of how the topics that we have discussed this afternoon play out.

Calder: We've covered a lot of subjects. I think all of us share an appreciation for Professor Zhang, Dr. Noland, and Mr. Taniguchi. Thank you very much.

[End]

About the Panelists

Main Speaker **Professor Zhang Yunling** is Director of the Institute of Asia-Pacific Studies, Professor of International Economics, and Director of the APEC Policy Research Center at the Chinese Academy of Social Sciences (CASS). He is also a member of the Foreign Relations Committee, National Committee of the Chinese People's Political Consultative Conference. He served as a member of the East Asian Vision Group (2000-01), China-ASEAN Cooperation Official Expert Group (2001), and Task Force of ASEM (2003-04). Professor Zhang has been a visiting scholar at Harvard University and the School of Advanced International Studies (SAIS). He also was a senior visiting professor at the Massachusetts Institute of Technology and a visiting professor at the European University Institute. Professor Zhang was educated at Shandong University and the Graduate School of CASS. His major publications include *East Asian Cooperation: Searching for an Integrated Approach* (2004), *International Environment for China in the Coming 10-15 Years* (2003), and *China-U.S.-Japan Relations in Transition* (1997).

Discussants **Dr. Marcus Noland** is Senior Fellow at the Institute for International Economics. Previously he was a senior economist at the Council of Economic Advisers in the Executive Office of the President of the U.S., and has held research or teaching positions at the Johns Hopkins University, the University of Southern California, and the University of Tokyo. Dr. Noland has received fellowships sponsored by the Japan Society for the Promotion of Science, the Council on Foreign Relations, and the Council for the International Exchange of Scholars. He received a Ph.D. from the Johns Hopkins University. His publications include *Industrial Policy in an Era of Globalization: Lessons from Asia* (2003), *No More Bashing: Building a New Japan-United States Economic Relationship* (2001), and *Avoiding the Apocalypse: The Future of the Two Koreas* (2000), winner of the Ohira Prize.

Mr. Taniguchi Tomohiko is Visiting Fellow at the Center for Northeast Asian Policy Studies, the Brookings Institution. He is an expert on Japanese political economy and Japanese financial diplomacy. Mr. Taniguchi is Editor-at-Large of Nikkei Business Publications, Inc. Previously he was chief senior writer at Nikkei Business and bureau chief of the Nikkei Business European Editorial Bureau, London. While in London he was president of the Foreign Press Association. He has also been a visiting scholar at the Shanghai Institute of International Studies, and a Fulbright visiting fellow at Princeton University. Mr. Taniguchi received a B.A. from the University of Tokyo. He has published *Current World from both Vertical and Horizontal Angles (Tate Yomi Yoko Yomi Sekai Jihyo, 2004)* and *Japan's Banks and the "Bubble Economy" of the Late 1980s* (1993).

Moderator **Dr. Kent Calder** is Director of The Edwin O. Reischauer Center for East Asian Studies and Edwin O. Reischauer Professor of East Asian Studies at The Paul H. Nitze School for Advanced International Studies (SAIS), Johns Hopkins University. Previously he was Professor of Politics and International Affairs at Princeton University. Dr. Calder also served as Special Advisor to the U.S. Ambassador to Japan from 1997-2001. He was Japan Chair at the Center for Strategic and International Studies from 1989-1993 and 1996. He has also been executive director of the Harvard University Program on U.S.-Japan Relations, and a lecturer on government at Harvard, where he received his Ph.D. He is the author of *Crisis and Compensation* (1988), recipient of the 1990 Arisawa and Ohira Prizes, *Pacific Defense* (1996), recipient of the 1997 Mainichi Asia-Pacific Prize, and *Strategic Capitalism* (1993), as well as co-author or editor of several other works.